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The transformation of state-business relations in an emerging economy: The case of Brazilian agribusiness

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Abstract: Brazil has long been considered the archetype of “dependent development,” having served as the inspiration for the classic theory of the relationship between states and capital in the semi-peripheral states of the developing world. Since the theory of dependent development was initially formulated in the 1970s, however, both the Brazilian political economy and the global context in which it is situated have changed dramatically. In this paper, I revisit the Brazilian case in an effort to shed light on how state-business relations have been transformed in the contemporary era of globalization. I show how the emergence of a highly-competitive export-oriented agribusiness sector in Brazil has prompted the expansion and internationalization of domestic capital, leading to the emergence of an independent, private sector lobby with considerable influence on the Brazilian state. Driven by the rise of Brazilian agribusiness, the state and capital have allied together to aggressively pursue the expansion of markets for Brazilian exports, specifically through dispute settlement and negotiations at the World Trade Organization (WTO).

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Introduction

In the 1970s, the case of Brazil drew considerable attention from scholars, inspiring the theory of “dependent development” and profoundly shaping our understanding of the relationship between states and capital in the semi-peripheral countries of the developing world. Yet, in the intervening years, both the Brazilian political economy and the global context in which it is situated have changed dramatically. Brazil has experienced a transition from dictatorship to democracy, major policy changes accompanying neoliberal market restructuring, and its emergence as a significant player in the global political economy. Concurrently, the world has undergone an intense period of economic globalization and the spread of market fundamentalist policies encapsulated in the “Washington Consensus.” The core-periphery relations elucidated by world-systems and dependency theorists are being restructured as the rise of large “emerging economies,” such as China, India and Brazil, challenges the dominance of the US and other states of the Global North.

In this paper, I return to the Brazilian case several decades after the theory of dependent development was first formulated in order to highlight important changes in the nature of state-business relations in the contemporary era of globalization. I demonstrate that the emergence of a highly-competitive export-oriented agribusiness sector in Brazil has prompted the expansion and internationalization of domestic capital, creating an independent, private sector lobby with considerable influence on the Brazilian state. Driven by the rise of Brazilian agribusiness, the state and capital have allied together to aggressively pursue the expansion of markets for Brazilian exports, through World Trade Organization (WTO) dispute settlement and negotiations. This analysis draws on 15 months of field research conducted in Sao Paulo, Brasilia, Beijing, New Delhi, and Washington, as well as at the WTO in Geneva, involving 157 interviews with senior government officials, trade negotiators, and representatives of industry and non-governmental organizations; ethnographic observation; and extensive documentary research.

Theorizing state-business relations in Brazil

The theory of dependent development has provided a central framework for understanding state-business relations in semi-peripheral countries such as Brazil. It emerged as a critique of classic dependency theory, which saw the prospects for Third World countries to develop as blocked by their dependence on the export of low-value primary products (such as raw materials and agricultural goods) to the core countries of the capitalist global economy (Prebisch, 1962; Frank, 1966). The theory of dependent development sought to account for important changes in the global economy that had occurred during the 1950s and 60s: the emergence of multinational corporations (MNCs) increasingly investing in manufacturing industry in the periphery and the partial success of some developing countries in fostering industrialization through the use of import-substitution industrialization (ISI) policies (Harriss, 2009; Munck, 2009; Cardoso and Faletto, 1979; Heller *et al.*, 2009). Dependent development broke with traditional dependency theory by arguing that – for at least a subset of Third World countries (the more advanced, or semi-peripheral, countries) – development through industrialization was possible even under conditions of dependency. Such development remained “dependent” due to its heavy reliance on capital supplied by foreign multinationals originating in core countries. This dependence on

foreign capital made possible, but also constrained and distorted, patterns of national development (Gereffi and Fonda, 1992).

Brazil was widely seen as the paradigmatic case of dependent development (Evans, 1995, p. 11). The export of agricultural commodities played a central role in Brazil's early economic history, dating back to the colonial era. Well into the early decades of the twentieth century, the Brazilian economy centered on the export of coffee and rubber to Europe and the US. It was a situation of classic dependency, with Brazil reliant on the export of cheap primary products and the import of more expensive manufactured goods (Cardoso, 1972). Concerned about its dependence on primary product exports in the context of declining terms of trade, Brazil – like many developing countries – embarked upon import-substitution policies designed to foster the development of national industry. In Brazil, this began as early as the 1930s and accelerated in the 1950s-60s (Evans, 1979). As Gereffi (1989, p. 514) states,

“the deterioration of the terms of trade for agricultural exports began in the 1920s, reflecting falling demand and rising supplies of agricultural goods throughout the industrialized nations, and the adoption of protectionism in many countries of Continental Europe. This led to the demise of the primary product export model and served as an incentive for import-substituting industrialization.”

Brazil's ISI policies succeeded in increasing manufacturing and fostering economic development, but relied heavily on MNCs and foreign direct investment (FDI) from the core countries of the Global North. Industrialization was rooted primarily in production for its large domestic market, which served to attract foreign corporations and investment. The resulting development, however, was “indelibly marked by the effects of continued dependence on capital housed in the core countries” (Gereffi and Evans, 1981, p. 32). At the center of the dependent development model was the relationship between the state and capital, specifically the interaction among the state, multinational corporations, and national business elites in driving national development through industrialization. In his classic study of dependent development in Brazil, Evans (1979) posited a “triple alliance” of the state, multinational and local capital. The relationship among these actors was characterized by both conflict and cooperation. Conflict among the interests of transnational capital, local capital and the state over local development priorities – and with the state subject to other competing interests and pressures – meant that there was not always complete accord within this alliance. Nevertheless their concurrent interests in economic development and profitability made industrialization a shared objective and provided incentives for cooperation. The primary challenge for the state was to attract and manage foreign multinational corporations and capital in order to fuel the project of national development through industrialization. The state approached the economy with an attitude of “conscious interventionism” (Evans, 1979, p. 86). It played a heavy role in managing the economy, including through state-sponsored industrialization projects, state-owned enterprises, market regulation, and foreign trade and investment restrictions. The state also funded and controlled industry associations and unions. State-capital relations in the domestic sphere were characterized by corporatism, which rendered local capital the weakest party in the triad, largely controlled by and subservient to a strong, interventionist state.

Analyzing the contemporary case of Brazil, I argue that while alliances between the state and capital continue to be significant in Brazil's development model, they have been transformed in the era of globalization. During the period of ISI, the key driver of economic change was foreign capital, seeking access to the domestic market, whose activities the state sought to control and

discipline in order to foster national development. The most important actors in the alliance were the state and foreign capital and the basis for their alliance centered on the domestic market. Now, however, driven by rapid and sustained export-led growth in the agro-industrial sector, local capital has expanded dramatically. Brazilian capital has been internationalized, producing primarily for export markets and engaged in extensive trade, investment and production activities abroad. It has also emerged as a major force in shaping Brazilian politics and policy. Previously, the focus of the state was on fostering the domestic manufacturing industry, which was seen as the primary engine of economic development; now, significant emphasis has shifted to fostering agro-industry, which has become a major source of growth and export revenue. Brazilian capital, which was once the weakest party in the triad, has become its leader. The central alliance is now between the state and domestic capital, working together to expand exports. A central focus of their efforts has been in seeking to use WTO negotiations and dispute settlement to liberalize global agricultural trade.

Figure 1 traces the significant changes that have occurred in state-business relations in Brazil over the last two decades. As Brazil has developed a highly-competitive and sophisticated agro-industrial export sector, domestic capital has expanded and become internationalized; an independent, private sector lobby has developed, with considerable influence on the Brazilian state; and a state-business alliance has emerged in pursuit of the expansion of export opportunities.

[INSERT FIGURE 1 HERE]

In the last decade, Brazil has become an increasingly aggressive and prominent actor at the WTO, the international institution responsible for setting and enforcing the rules of the international trading system (Hurrell and Narlikar, 2006; Schott, 2009; Lee and Wilkinson, 2007; Hopewell, 2013). However, in seeking to understand Brazil's changing position at the WTO, existing accounts of trade policy formulation in Brazil – rooted in the traditional conception of state-business relations – have stressed the isolation of the Brazilian state. These accounts contend that it determines such policy with little influence from domestic interest groups who have only limited access points through which to engage with the state and are largely co-opted. Hurrell and Narlikar (2006), for example, de-emphasize the importance of domestic politics in driving Brazil's trade policy; instead, they argue that Brazil's behavior at the WTO should be understood as driven primarily by international-level factors and its interaction with other states. They contend that consultation with interest groups in Brazil is limited and selective and often serves merely as a device to legitimize the policy and negotiation positions that the government has adopted internationally. Botto (2010: 68) makes a similar argument that "input from the private sector faces serious obstacles in reaching decision makers." While this may accurately reflect and describe the traditional way of formulating trade (and other) policy in Brazil, I argue that it fails to capture the significant change that has occurred in Brazilian policymaking. The booming agribusiness sector – a key source of dynamism in the Brazilian economy – interacts with the government in a fundamentally different way than our old model for understanding state-business interaction in Brazil would predict. In the last two decades, Brazilian agribusiness has emerged as a key driver of Brazilian trade policy and its negotiating position at the WTO.

Brazil's emergence as an agro-industrial powerhouse

Changes in the global political economy over the last several decades – including economic globalization, neoliberal restructuring, and the liberalization of global markets – have had a dramatic impact on the Brazilian economy and its development strategy. Brazil's ISI policies were generally successful in fostering industrialization and economic growth and development. However, by the 1980s – like many developing countries – Brazil was confronted with a profound economic crisis involving severe balance of payments problems, hyperinflation and the Third World debt crisis. Policymakers determined that the old model of an inward-looking economy with substantial state intervention to promote industrial development was no longer sustainable and embarked on a major program of neoliberal economic restructuring, which included stabilizing the macroeconomic environment, removing state intervention from markets, and opening the economy to foreign trade and investment. Brazil also went through equally momentous changes in its political system, with the transition from military rule to democracy in 1985.

Historically, Brazil's agricultural sector was based primarily on large plantations producing tropical products for export, small family farms supplying the domestic market, and peasants engaged in subsistence production. Due to the success of Brazil's ISI policies, over much of the twentieth century the importance of agriculture in the national economy declined as that of manufacturing increased. However, in recent decades, the combination of liberalization and technological innovation transformed Brazil's agricultural sector, prompting the emergence of a large-scale and highly competitive agribusiness sector. The foundation for this transformation was laid in the 1970s, with substantial public and private investment – driven by Japanese financing and the Brazilian government's federal agricultural research institute, EMBRAPA – in research to adapt temperate crops (such as soybeans) to Brazil's tropical climate and soils (Goldsmith and Hirsch, 2006). A temporary US embargo on its own agricultural exports in the early 1970s threatened global supply and gave impetus to efforts to develop production of these commodities in Brazil (Wilkinson, 2009). This technological innovation enabled Brazil to move away from the tropical products typically exported by developing countries (coffee, tea, sugar, bananas, etc.) to producing and exporting commodities (soybeans, cotton, corn, beef, chicken, pork, etc.) that directly compete with those of the world's dominant agricultural producers – the US, EU, and other countries of the Global North. Rapid expansion and restructuring of Brazil's agricultural sector took off with the economic reform policies of the 1980s and 1990s. Economic policy during the ISI period had involved significant state intervention in agricultural markets. Brazil's economic liberalization program entailed many changes directed specifically at the agricultural sector, including eliminating government purchases, marketing boards and minimum support prices; privatizing state enterprises; reducing subsidies; and eliminating foreign trade restrictions (domestic and export taxes, other restrictions on agricultural exports, and import licenses) and barriers to foreign investment.

The market-oriented policies Brazil introduced ushered in rapid export-led growth in the agricultural sector, driven by massive investment and consolidation. In just a four year period, from 2000-2004, total planted area grew by an area larger than the size of Italy or Vietnam (ICONE, 2006). Exports grew at rates as high as 20 percent per year (Valdes, 2006). This was driven by the expansion of corporate farming, including the emergence of “mega farms” – large, professionally managed corporate farm groups benefitting from economies of scale, many with planted areas in excess of 1 million hectares. Although Brazil is blessed with favorable natural resource endowments (including an abundance of arable land and water and a climate that allows for two harvests per year), the transformation of Brazilian agriculture has been driven by

substantial research and development and resulting technological advance, which opened up sizeable new areas of the country to non-traditional crops and made possible significant gains in yields and productivity. The agro-industrial sector is highly sophisticated, based on mechanized, capital-intensive, vertically-integrated production.

Brazil has emerged as an agro-industrial powerhouse: it is one of the most competitive agricultural producers in the world and the leading exporter of a large and growing number of products (see Table 1). Brazil is now the third largest agricultural exporter, after the US and EU, and the country with the largest agricultural trade surplus. Its exports are expected to continue to expand rapidly over the next decade and beyond.

[INSERT TABLE 1 HERE]

Although Brazil's agricultural boom is based on exports, it is not simply dependent on the markets of the old core of advanced-industrialized countries. Instead, Brazil's exports are spread across a large range of countries and regions and increasingly concentrated in the developing world. In the last several decades, Brazil faced significant trade barriers in the US and EU for many of its key export products (such as orange juice and beef in the US and poultry in the EU). To get around these barriers, Brazilian agribusiness firms used a strategy of acquiring foreign competitors and locating some of their production in these markets (EIU, 2010). They also diversified their export markets, a process facilitated by the dramatic expansion of demand for agricultural products in rapidly growing parts of the developing world. Developed countries were once the main destinations for Brazilian agricultural products, but since 2004 most of its agricultural exports have been destined for developing countries and other non-traditional export destinations (Damico and Nassar, 2007). China is now the largest market for Brazilian agribusiness products (EIU, 2010). In the words of one Brazilian negotiator at the WTO:

“Brazil is a truly global exporter, not tied to any particular region or market. More than half our exports are South-South trade and we expect markets in Asia and Africa to represent the future for Brazilian exporters. We think this trade has a lot of growth potential – many of these countries are already net food importers and have limited natural resources to produce their own agricultural products. The more these countries get richer – like China, India – the more they will need our exports, particularly meat.”[1]

In developing countries, more and better food is one of the first demands from consumers as incomes rise. While the US and EU are mature markets with limited potential for growth, rapid income growth in the developing world is driving an explosion of demand for Brazil's agricultural products and Brazil's trade is now heavily oriented towards these countries.

Far from being dependent on the US and EU markets, Brazil now competes with the US and EU in such third country markets. In fact, Brazil is in direct competition with the US and EU for most of its key agricultural exports (USDA, 2009).

Expansion and internationalization of Brazilian capital

The growth of Brazil's agro-industrial export sector has fueled a dramatic expansion and internationalization of “local” capital. Liberalization prompted a large inflow of foreign investment and increase in the presence of foreign MNCs – including US and EU based firms such as Cargill and Bunge, as well as firms from neighboring Argentina – which helped propel the initial growth of the sector (Jank *et al.*, 2001). Foreign MNCs continue to have a significant

presence in Brazil's agricultural sector, as they do nearly all over the world. However, in the last two decades, there has been a dramatic expansion of Brazilian firms. Of the 40 leading agribusiness companies operating in Brazil, 35 are Brazilian in origin.[2] There are now approximately 20 agribusiness companies in Brazil with annual sales of more than US\$1bn and others are poised to soon reach this level (EIU, 2010). Brazilian firms have also diversified their activities and moved up the value chain into higher value-added activities, such as trading, processing, transport, and energy production (biofuels).

Many Brazilian companies have transformed themselves into multinational players, through aggressive campaigns of outward foreign investment and acquisitions (EIU, 2010). One of Brazil's leading firms, JBS, has become the world's largest beef processor and among the largest poultry and pork processors, with operations in all of the world's major markets and global revenues of US\$17bn. It has acquired some of the largest agrifood companies in the US, Europe and elsewhere, including: Swift & Company, one of the largest beef and pork processors in the US; 50 percent of Inalca, one of Europe's biggest beef-producing companies; Swift Armour, Argentina's largest beef producer and exporter; and Pilgrim's Pride, the largest chicken producer in the US. Brasil Foods is now one of the largest frozen food producers in the world, with a presence in over 110 countries. The recent merger of two Brazilian firms, Citrosuco and Citrovita, created the world's largest orange juice producer, with production facilities in both Brazil and the US and port terminals in North America, Asia and Europe. Similarly, Brazilian firms are leaders in the sugar/ethanol sectors and are investing aggressively in production in Latin America, the Caribbean and Africa (Wilkinson, 2009). Brazilian business actors have sought to capture the benefits of globalization by transnationalizing their activities. Brazilian "local" capital has thus become internationalized: Brazilian firms have become global actors, producing for foreign markets and engaged in extensive activities abroad, including investment, joint-ventures, mergers and acquisitions, and foreign production.

Development of an independent agribusiness lobby

The emergence of a sophisticated and aggressive export-oriented agribusiness sector transformed the relationship between the state and business. At the same time, it also significantly altered Brazil's trade policies and orientation towards international trade negotiations. Prior to liberalization, Brazil's old *dirigiste* economy had a strongly protectionist orientation. Trade policy was essential to Brazil's ISI policies, but it was inward-looking and centered on protecting domestic industries against foreign competition from imports. During this period, Brazil played only a relatively minor role in the General Agreement on Tariffs and Trade (GATT), the predecessor to the WTO. Brazil did not assume a role of *demandeur* in the trade regime; its involvement in the negotiation of specific issues was limited and its concerns were primarily defensive, seeking to delay or block the expansion of trade rules (de Lima and Hirst, 2006).

Brazil's international trade and economic policymaking was highly centralized, with authority concentrated in its Ministry of Foreign Affairs (Itamaraty) which had a high degree of autonomy from domestic social forces (Shaffer *et al.*, 2008; Veiga, 2007). This was compounded by the fact that from 1964 to 1985, Brazil was an authoritarian state under military rule: as Evans (1979, p.: 265) states, "one of the military's aims was to 'abolish politics,' which in practice meant eliminating popular input into the political process." Economic policy instruments were under the control of a strong techno-bureaucracy and government-business relations were generally

non-transparent (Veiga, 2002). At this time, Brazilian industry was primarily focused on the domestic market. Since GATT did not pose a significant risk to Brazil's ISI policies, industry had little reason to be concerned. Overall, the private sector's role was relatively passive and it had little engagement in trade policy formulation: it did not coordinate to lobby the government regarding the GATT and rarely participated in the definition of Brazil's negotiating position (Veiga, 2002).

This changed as Brazil moved to an economic model centered on export growth and its development orientation shifted outward. While Brazil's trade policy had been primarily determined unilaterally in the past, external trade negotiations took on greater importance in the 1990s with the establishment of Mercosur in 1991 (a regional trade agreement designed to create a common market), the beginning of negotiations for a Free Trade Area of the Americas (FTAA) in 1994, and the establishment of the WTO in 1995. Within the Brazilian state, other ministries became increasingly involved in trade negotiations as they broadened in scope to include important issues of domestic policy (Shaffer *et al.*, 2008). The private sector also began to devote more attention to trade policy. Brazil's ISI policies had created sectors that benefited from the old regime of trade protection and were threatened by the prospect of liberalization. In the early 1990s, these import-competing sectors managed to maintain primacy in trade policy: a "protectionist block" dominated the expression of private sector interest in trade policymaking and Brazil maintained a primarily defensive posture in trade negotiations (Veiga, 2007). However, as economic reforms took hold and the agro-export sector expanded, the scales began to tilt in its favor.

The political participation of agribusiness grew significantly in the late 1990s. Under the old corporatist structure of state-business relations, the major business associations were officially sanctioned, funded, and supervised by the state, preventing the emergence of strong business lobby associations (Marques, 2008). Now, the burgeoning agro-export sector began to develop its own independent associations, by-passing the old corporatist structures, to articulate their interests and influence policymaking (Marques, 2008). Agribusiness lobbying in Brazil organized both along sectoral lines (e.g., sugar, beef), as well as in broader cross-sectoral associations (e.g., Brazilian Agribusiness Association). Brazilian agribusiness grew increasingly interested in trade policy and began pressing the state to take more aggressive positions in international trade negotiations in order to expand markets for Brazil's exports.

The agribusiness sector also has close ties to the state. Agribusiness interests hold considerable sway in the national legislature and many senior-level government appointments are filled by representatives of the agro-industrial sector.[3] Agribusiness had a significant presence in Lula's cabinet. For example, the Minister of Development, Industry and Foreign Trade in his first administration, Luiz Fernando Furlan, was previously Chair of Sadia, one of Brazil's biggest poultry producers, and President of two major industry lobby groups, the Brazilian Chicken Exporters Association (ABEF) and the Brazilian Association of Vegetable Oil Manufacturers (ABIOVE). Similarly, the Minister of Agriculture, Roberto Rodrigues, came from heading the Brazilian Agribusiness Association (ABAG) and the Brazilian Rural Society (Sociedade Rural Brasileira). Likewise, under Cardoso, the key official within the government leading the charge to launch the cotton and sugar cases at the WTO described below, Pedro de Camargo Neto, was formerly head of the Brazilian Rural Society (Sociedade Rural Brasileira), which lobbies on behalf of agribusiness. There is also close collaboration between agribusiness representatives and

government officials, including the co-authoring of books and articles (e.g., Damico and Nassar, 2007; Thorstensen and Jank, 2005), reflecting their shared beliefs and orientation.[4]

Economic and trade policy

When President Luiz Inacio Lula da Silva and the left-wing Workers' Party (PT) came to power in 2002, there were expectations of a potential shift away from neoliberalism, but the Lula government in fact continued the economic and trade policies of its predecessors. This included privileging agribusiness expansion, based on the notion that Brazil must "export or die," first articulated by Cardoso, Lula's immediate predecessor and the major architect of its liberalization program (Karriem, 2009). Agribusiness contributes 28 percent of GDP and is considered an important engine of growth in the Brazilian economy (Valdes, 2006; Damico and Nassar, 2007). Agribusiness exports are also seen as a central means of generating foreign exchange and avoiding the balance-of-payments problems that historically plagued the country: they are responsible for over 40 percent of exports and 97 percent of the country's balance of trade surplus (OECD, 2009). As one Brazilian trade official stated, "my sympathies are with agribusiness. Just look at the figures – my macro stability depends on agribusiness." [5]

There is, however, another side to Brazilian agriculture. While agribusiness is responsible for most of Brazil's agricultural production (75 percent) and nearly all of its exports, the vast majority of the country's farmers (85 percent) are less competitive, small-scale family farmers and subsistence producers (MDA, 2009), for whom the expansion of agribusiness poses a significant threat. Land distribution in Brazil has historically been among the most unequal in the world; this has been exacerbated by economic liberalization and the industrialization of agriculture, which have increased the concentration of land holdings and resulted in the displacement of small landholders and workers. The Brazilian Landless Workers Movement (*Movimento dos Trabalhadores Rurais Sem Terra*, MST) – a social movement pursuing agrarian reform by mobilizing landless peasants to occupy land since the late-1970s – has been a key force of opposition to agricultural liberalization and neoliberalism (Karriem, 2009).

The dualistic structure of Brazilian agriculture is reflected in government policymaking: Brazil is likely the only country in the world with two agriculture ministries. The Ministry of Agriculture (*Ministério da Agricultura, Pecuária e Abastecimento*, MAPA) formulates and implements policies to promote the development of the large-scale, industrial, export-oriented agribusiness sector, while a separate Ministry of Agrarian Development (*Ministério do Desenvolvimento Agrário*, MDA) was established in 2000 to alleviate rural poverty by administering welfare-oriented policies and support programs (such as price supports and subsidized credit) directed at small-scale farmers, subsistence producers, rural workers, and landless settlements (OECD, 2009). Likewise, the different sets of interests are reflected by two separate lobbying organizations: the National Agricultural Federation (*Confederação Nacional da Agricultura*, CNA) representing commercial and large farmers, and the National Federation of Rural Workers (*Confederação Nacional dos Trabalhadores Rurais*, CONTAG) representing small farmers and workers. In Brazilian policy making, industrialized agriculture and small-scale farming are treated as two separate tracks. But, of the two, it is agro-industry that is given primacy; the relative weight of the two sectors in Brazilian policy is evident in the fact that MAPA's budget is nearly double that of MDAs (despite the fact it serves only 15 percent of producers).[6] The weight of MAPA is particularly strong in determining trade policy; this is illustrated, for

example, in the size of its staff devoted to trade issues, which dwarfs that of MDA (MAPA has approximately eighty professionals working on trade, compared to MDA's ten). Within the Brazilian state, small-scale farming and subsistence production are generally seen as a backwards and declining sector – and primarily as a target for social protection and welfare programs – while agro-industry is viewed as a dynamic sector and a key source of growth and prosperity.[7]

Since Lula, the Brazilian government's strategy has been to pursue neoliberal economic policies and export-led growth, accompanied by social welfare policies and redistribution to improve conditions of the lowest strata of society. During this period, the Brazilian economy has grown rapidly, along with falling unemployment, rising wages, and a growing middle class (Lapper, 2010). The Lula government expanded welfare policies through programs such as the Bolsa Familia, an income transfer to poor households, and Zero Hunger (Fome Zero), a program to combat food insecurity and extreme poverty. These programs have managed to reduce poverty rates, especially rates of extreme poverty, as well as inequality (Soares *et al.*, 2007). In agriculture, the dual-track of Brazilian policy has meant a primary focus on expanding agribusiness exports, occurring alongside efforts to assist the family farming sector and an expanded land reform program to settle landless peasants, although these have fallen far below the expectations of the MST and failed to halt the increasing concentration of land (Frayssinet, 2009). Economic growth, combined with expanded social welfare policies, has created a degree of social consensus around the government's economic and trade policies, including its promotion of agribusiness and export-led growth – evident in 80 percent approval ratings for Lula (Colitt, 2010) and re-election of the PT under his successor, Dilma Rousseff, in 2010. Despite criticism from some social movements such as the MST about Brazil's intensive agro-industrial model (Rodrigues, 2009; MST, 2009), such concerns have not substantially disrupted the direction of its agricultural or trade policy.

The state-business alliance to expand exports

The Brazilian state and agribusiness have allied together to push for global agricultural trade liberalization in order to expand markets for Brazil's exports. Their objective is to improve access to foreign markets by lowering tariffs and reducing agricultural subsidies in countries such as the US and EU, which depress world prices and impede the growth of Brazil's exports. With both the FTAA and EU-Mercosur trade negotiations stalled, the WTO became the priority for agribusiness. Agribusiness had been frustrated with the results of the previous Uruguay Round (1986-94) of WTO trade negotiations – which had promised much but ultimately delivered little liberalization in agriculture – and saw the current Doha Round as an opportunity to aggressively start reducing trade barriers and other market distortions. Brazilian producers believe that by liberalizing trade and reducing rich country subsidies, Brazil could surpass the US as the world's leading agricultural exporter (Rohter, 2005). This view is shared by officials:

“Structural changes in the world trading system really can provide Brazil with great opportunities in the future. The WTO negotiations are important because we will probably be displacing the big guys in the global market. That's why we have been pushing so hard on the Doha Round and why we are the major developing country user of the dispute settlement system.”[8]

The pro-free trade stance of Brazilian agribusiness is not shared equally by other sectors of society. Many NGOs, trade unions, social movements, and groups representing small farmers and peasants, including CONSEA, CONTAG, the Brazilian Network for the Integration of Peoples (*Rede Brasileira pela Integração dos Povos*, REBRIP), and the MST, opposed the launch of a new round of WTO negotiations and have argued that Brazil should resist the expansion of trade liberalization at the WTO (Veiga, 2007). In addition, Brazil has other economic sectors that are threatened by foreign competition (including many manufacturing sectors, such as electronics, textiles and clothing, shoes, chemicals, and automobiles). Many of these sectors have already suffered significant damage from imports – particularly from China – and are concerned about the potential impacts of further liberalization. But in determining Brazil's trade policy and its negotiating position at the WTO, the concerns of its defensive sectors have been largely outweighed by the potential benefits of liberalization for the agro-export sector and Brazil has demonstrated a willingness to make concessions in these areas in order to secure benefits for its agricultural exports (Veiga, 2007). Brazil has defined its primary strategic interest as seeking further agricultural trade liberalization and opening foreign markets to its exports.[9] Brazil is seen as one of the biggest potential winners from the Doha Round and has been one of its most active and vocal supporters.[10]

Despite the undeniable influence of non-state actors – including the private sector, NGOs, and trade lawyers and experts – the WTO remains an inter-state forum, with negotiations and dispute settlement operating on a state-to-state basis. Brazilian agribusiness has therefore needed to work closely with the Brazilian state to advance its interests at the WTO. Agribusiness has emerged as a powerful force in Brazilian politics with considerable influence in shaping government policy, particularly in the realm of trade. But this is more complicated than simply a case of the state being captured by a powerful domestic interest group; the Brazilian state is not merely an instrument controlled by agribusiness. Instead, the relationship between the state and agribusiness is better understood as an alliance or partnership, involving a conscious alignment of the Brazilian state with agribusiness, based on shared interests and ideology. The position of the state accords with Evan's (1995) concept of "embedded autonomy" – it is both autonomous and embedded in dense ties to important actors in the private sector. In the realm of foreign and trade policy, Brazil has a highly capable and effective state bureaucracy, which has a degree of independence and autonomy from domestic social forces but also close ties to agribusiness. Given the importance of agribusiness exports to the Brazilian economy, expanding exports is a shared objective of both the state and agribusiness, which provides the basis for their alliance in pursuit of agricultural trade liberalization at the WTO.

Brazil consequently adopted an aggressive position at the WTO, seeking to make use of both the WTO's strong dispute settlement mechanism and the Doha Round negotiations to advance the commercial interests of its agribusiness sector. As described above, Brazil's agricultural export markets are increasingly concentrated in the developing world, which represent its key source of future demand growth; in these markets it competes heavily with subsidized agricultural products produced by the US, EU and other developed countries. Brazil determined its primary objective is to reduce the subsidies provided by the US and EU to their agricultural producers and thereby improve its competitive position vis-à-vis those countries in global markets. Working together in close partnership, Brazilian agribusiness and the state successfully waged two landmark trade disputes against the US and EU – the cotton and sugar cases – and mobilized a coalition of developing countries – the Group of 20 (G20) – to challenge developed country agricultural subsidies.

WTO Dispute Settlement

Historically, the Ministry of Foreign Affairs controlled Brazil's approach to GATT/WTO dispute settlement and generally received little proactive input from the Brazilian private sector (Shaffer *et al.*, 2008). However, in the late 1990s-early 2000s, two prominent cases launched against Brazil under the new Uruguay Round rules and dispute settlement system – a Canadian challenge to Brazilian aircraft subsidies and a US complaint regarding Brazil's intellectual property law in the area of pharmaceuticals – drew unprecedented public attention to the WTO in Brazil and raised awareness among its business sector of the power of WTO dispute settlement.[11] Brazilian agribusiness became eager to use the WTO dispute settlement system to challenge the agricultural policies of the US and EU. Initially, the agribusiness sector pressed the Brazilian government to initiate a case against US subsidies to soybeans, one of the most significant export commodities for Brazil. However, the Ministry of Foreign Affairs (Itamaraty) resisted, concerned about the complexities and financial costs associated with such a case, the risk involved in challenging the US, and the potential political fallout if Brazil were to lose.[12] During the delay caused by Itamaraty, market fluctuations eliminated the technical basis for the case (a rise in soy prices caused US subsidies to fall). Ultimately, under pressure from the agribusiness sector and its representatives in the Ministry of Agriculture, Brazil decided to target US cotton subsidies. The implications of this move went beyond cotton, as through the cotton case, Brazil was able to challenge a broad range of general support programs that cover not only cotton but several other commodities, including soybeans and corn (Chaddad and Jank, 2006). Brazil also decided to concurrently launch a case against the EU on sugar, in an effort to disarm potential criticism that it was targeting the US for ideological or political reasons and to show that it was taking a stand against agricultural subsidies in general.

Brazil launched the two landmark dispute settlement cases against US cotton subsidies and EU sugar export subsidies in September 2002. The cotton and sugar agribusiness associations, ABRAPA and UNICA, financed the cases and provided legal counsel. Brazil won both cases in 2005 and their impact was profound. They marked the first time that a developing country had successfully challenged developed country agricultural subsidies. As a result, the EU was forced to reform its sugar support programs to eliminate the offending export subsidies. The US eliminated its most egregious cotton subsidies and was required to pay Brazilian farmers \$147 million per year until it fully reforms its cotton subsidy programs in the next farm bill; should it fail to do so, Brazil was granted the right to impose over \$800 million in retaliatory trade sanctions against US goods, pharmaceuticals, and software. Moreover, Brazil's victories were of broader significance beyond the specific commodities they addressed, as they revealed major inconsistencies between US and EU agriculture policies and WTO rules. As one report to US Congress stated, "a review of current US farm programs measured against these criteria suggests that all major US program crops are potentially vulnerable to WTO challenges." (CRS 2006: ii) Brazil's success in the disputes demonstrated the vulnerability of developed country farm programs and raised the prospect that they could be subject to a wave of future WTO dispute settlement challenges.

Doha Round Negotiations

In addition to dispute settlement, the Brazilian state and agribusiness have also actively collaborated to use the Doha Round negotiations to expand markets for Brazil's exports. Over the last decade, the Brazilian government invested heavily in enhancing its staff and resources dedicated to WTO trade negotiations and dispute settlement. It now has one of the largest delegations in Geneva, supported by an army of highly trained and specialized trade officials in Brasilia, and its negotiating team is widely recognized as among the most skilled, active and knowledgeable at the WTO.[13] Brazil mobilized and led a coalition of developing countries – the G20 – to press for agricultural liberalization from the developed countries, particularly on subsidies, which has had a profound impact on the Doha Round. Brazil was the driving force behind the G20, and in turn, its agribusiness sector played a powerful and influential role behind Brazil's negotiating team and strategy in Geneva.

Determined to make significant gains in the Doha Round, in early 2003, Brazil's major agribusiness associations invested in creating a specialized trade policy institute, the Institute for International Trade Negotiations (ICONE), dedicated to producing sophisticated technical work to support the Brazilian government in the negotiations.[14] The Brazilian government relied on agribusiness, through ICONE, for much of the highly technical work needed for the Doha negotiations.[15] The government created an informal technical working group immediately after ICONE was founded.[16] The group was coordinated by Itamaraty and included all of the key government ministries (including MAPA and MDA), as well as ICONE, the national lobby group of the commercial farm sector (CNA), and the national association representing small farmers and agricultural workers (CONTAG). The intent was to include all relevant stakeholders and interests in the group, in order to increase its legitimacy. However, MDA and CONTAG were hampered by their lack of experience with trade issues and limited technical knowledge of the WTO and were less active and influential participants, particularly in the early stages when Brazil's negotiating position was being hammered out. Consequently, the real players in the group were Itamaraty, MAPA and ICONE. The group had no official role in decision-making and produced no official documents; concerned about the optics of working so closely with agribusiness, Itamaraty intentionally kept the group informal – “off the books” – such that it was never even given an official name. But it was here that Brazil's negotiating position, and ultimately most of the negotiating proposals put forward by the G20, originated.

The informal group functioned as a technical working group at the officials level, with participants engaged in marking up and drafting proposals together. During some periods, it met as frequently as every week, working for days at a time. ICONE played a central role: it generated the majority of the technical work, providing technical studies of domestic and export subsidies, tariffs and non-tariff barriers, and other issues in the negotiations; running econometric analyses of the impact of different tariff and subsidy reduction proposals; and generating proposals that were given to Brazilian negotiators and from there to the G20. Between 2003-2007, ICONE prepared 62 confidential technical papers and simulations for the Brazilian government (ICONE, 2007). ICONE's analyses were instrumental in the development of Brazil's, and consequently the G20's, negotiating positions. Detailed negotiating proposals based on the work of ICONE were formulated in the internal working group; Brazil would then take them to the G20 membership, where they would be modified slightly and subsequently presented to the WTO as the official G20 position. ICONE also had an active presence directly in Geneva: it attended G20 meetings and strategy sessions and accompanied the Brazilian negotiating team to formal meetings and negotiating sessions at the WTO.[17] The G20 has had a significant impact on the Doha Round, altering the dynamic and agenda of the negotiations. Through its

leadership of the G20, Brazil broke the US and EU's lock on decision-making and agenda-setting at the WTO and launched itself into the elite inner circle of negotiations as a key player in the Doha Round (Hopewell, 2013). Brazil and its agribusiness sector successfully made US and EU agricultural subsidies a central target of the round and the draft negotiating texts since the establishment of the G20 have substantively reflected many of its proposals. Specifically, the G20 has secured: a tiered formula for reducing subsidies ("domestic support"), ensuring that countries that provide the most support are required to make the biggest reductions, and stiffer criteria for cutting domestic support, such as product-specific caps; substantial reductions in domestic support (compared to historical bound levels), with the EU cutting overall trade distorting support (OTDS) by 80 percent and the US by 70 percent; the elimination of export subsidies and parallel disciplines on export credit and food aid; non-extension of the Peace Clause (protecting developed countries from WTO challenges), countering the long-standing position of the US and EU; and a "tiered" formula for reducing tariffs, rather than the "blended" formula sought by the US and EU (WTO, 2008). Although the final outcome of the Doha Round remains uncertain, the G20 – driven by Brazil and its agribusiness sector – significantly shaped the content of any prospective agreement.

Conclusion

I have argued that in the intervening decades since the theory of dependent development was first formulated, state-business relations in Brazil have been radically transformed, driven by changes in both the global political economy and the domestic polity. Under earlier conditions of dependent development, Brazil was dependent on investment by foreign multinationals seeking access to the domestic market to fuel economic growth and development. However, in the last two decades, the emergence of a highly-competitive export-oriented agribusiness sector in Brazil prompted the expansion and internationalization of domestic capital. Rather than being a weak entity – subjugated to a strong state, or playing second fiddle to foreign capital – local capital has instead become a key source of growth and dynamism in the Brazilian economy. Brazilian agribusiness has emerged as a powerful and independent private sector lobby with considerable influence on the Brazilian state. Driven by the rise of the agribusiness sector, the state and capital allied together to aggressively pursue the expansion of markets for Brazilian exports, specifically through dispute settlement and negotiations at the WTO.

While the current study has been limited to the Brazilian case, there is reason to believe that similar transformations may be taking place in at least some of the other emerging economies. In India, for example, a globally-competitive, export-oriented information technology (IT) and IT-enabled services (ITES) sector has emerged in the last two decades, centered on business process outsourcing (BPO) (including software development, call centers, payroll and accounting services, radiology and medical transcription, financial industry research and analysis, legal research and writing, and product research and development). The IT and ITES sector has become one of the most cutting-edge and best-performing sectors of the Indian economy and a major source of exports and foreign exchange (Hoekman and Mattoo, 2007; Chanda and Sasidaran, 2007). The sector is centered on domestic firms and, like Brazilian agribusiness, as they developed they bypassed old industry associations and corporatist structures in order to form a new and independent lobby, the National Association of Software and Services Companies (NASSCOM) to represent their interests vis-à-vis the state and exert influence on trade and economic policy. As with Brazil, driven by the rise of the Indian IT services sector, the

state and national capital have allied together to project their export interests abroad. Most recently, in response to new US visa rules that would restrict the ability of Indian outsourcing firms to bring Indian software engineers and other skilled IT workers to supply services in the US, industry and the state have been working together to engage in behind-the-scenes negotiations with legislators in US Congress, as well as threatening to launch a formal trade dispute at the WTO.[18] There thus appear to be notable similarities between the Brazilian and Indian cases.

China, however, the most prominent of the large emerging economies, seems to present a markedly different case. All three countries have experienced the emergence of a highly-competitive sector oriented towards global markets – Brazil in agriculture, India in services, and China in manufacturing – driving a dramatic expansion of exports and a reorientation of their economies. Yet in contrast to both Brazil and India, China is a strong authoritarian state, with state-business relations closely intertwined and the arms of the state extending deeply into the private sector. The boundaries between the state and domestic capital are far less distinct in China, and there appears to be little sign of an independent business lobby emerging to exert influence on the state (in the realm of trade or elsewhere), as we have seen in Brazil.[19] The apparent similarities and differences among these three cases point to the value of future comparative research analyzing contemporary transformations in state-business relations in the emerging economies.

Notes

[1] Interview, Geneva, March 2009.

[2] Data from EIU (2010).

[3] Interviews with government officials, industry representatives, civil society and media in Brazil, May 2010.

[4] Both examples were co-authored by representatives of ICONE and Brazilian negotiators at its mission to the WTO.

[5] Interview, May 2009.

[6] Interviews with Brazilian officials, May 2009.

[7] This was the consensus view among Brazilian policymakers interviewed, even those in MDA.

[8] Interview with Brazilian negotiator, Geneva, March 2009.

[9] Interviews with Brazilian negotiators and officials, September 2008-June 2009 and May 2010.

[10] Interviews with WTO negotiators and officials, September 2008-June 2009.

[11] Interview with Brazilian observer, May 2010.

[12] Interviews with Brazilian officials and industry representatives, May 2010.

[13] Interviews with WTO negotiators, Geneva, September 2008-June 2009.

- [14] ICONE's sponsors and advisory board consist of: ABIOVE (Brazilian Association of Vegetable Oil Industries), ABIPECS (Brazilian Pork Industry and Exporter Association), ABIEC (Brazilian Meat Industry and Exporter Association), ABEF (Brazilian Poultry Industry and Exporters Association), UNICA (Brazilian Sugar Cane Industry Union), ABAG (Brazilian Agribusiness Association), FIESP (Federation of Industries of the State of Sao Paulo), IRGA (Rice Institute of Rio Grande do Sul).
- [15] Interviews with Brazilian officials, September 2008-June 2009 and May 2010.
- [16] Interviews with Brazilian officials, September 2008-June 2009 and May 2010.
- [17] Interviews with Brazilian officials, September 2008-June 2009 and May 2010.
- [18] Interviews with Indian services industry representatives and government officials, New Delhi, March 2010.
- [19] Interviews with Chinese officials, Beijing, July-August 2009.

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